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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable Marilyn Bouquard House Of Representatives

Contracting Of Guard Services At Oak Ridge Will Spiral Costs

The Oak Ridge Office's conversion of security guard services from in-house to contractor performance will increase Government costs from $648,000 to $1,175,000 over the 3-year period.

GAO believes the Secretary of Energy should reassess the decision to contract the guard services because of the substantial savings by performing the services in-house.

This report also discusses the organizations' compliance with OMB Circular A-76 in contracting out other in-house activities.

UNITED STATES GENERAL ACCOUNTING OFFICE

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-206492

The Honorable Marilyn Bouquard
House of Representatives

Dear Ms. Bouquard:

In response to your July 7, 1981, letter, we have reviewed decisions by the Oak Ridge Operations Office and the Technical Information Center, Department of Energy, Oak Ridge, Tennessee, to contract for services which were, or could be, performed by Government employees. Our objectives were to determine if the decisions comply with provisions of Office of Management and Budget (OMB) Circular A-76, which prescribe the policies and procedures for acquiring commercial or industrial products and services needed by the Government, and if conflicts of interest have resulted from certain contracting situations cited in the enclosure to your letter.

We examined actual and proposed contracting actions identified in the enclosures to your letter; reviewed the policies and procedures in OMB Circular A-76 and the Cost Comparison Handbook; interviewed officials at the Operations Office and the Information Center, reviewed contract files, analyzed cost comparisons of in-house and contractor performance; and obtained information from the Department of Energy contractors in the Oak Ridge area. We also met with members of the American Federation of Government Employees and the Office and Professional Employees International Union. We made our review in accordance with GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Following is a summary of our findings and conclusions which are discussed in more detail in appendix I.

--The Operations Office's award of a contract on November 5, 1981, for security guard services will increase, rather than reduce costs to the Government. The Office's decision to contract was based on a cost comparison which showed that contracting would save about $291,000 over a 3-year period. However, the comparison did not include significant costs that would be incurred by contracting, which we estimate will actually increase Government costs from $648,000 to $1,175,000 over the 3-year period.

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--The Operations Office did not make a required comparison before converting accounting activities for nuclear materials from in-house to contract performance. Since the activity is currently contracted, there is no requirement that a cost comparison be made unless the agency feels that the work can be performed in-house at less cost. The Operations Office believes the contract operation is less costly and more efficient than if the work were done in-house. Since a cost comparison was not made, cost data was not available for us to evaluate which method of operation would be less costly.

--The Operations Office's and Information Center's other contracting actions were in compliance with Circular A-76.

--There appeared to be no conflicts of interest resulting from those decisions specifically identified by the concerned employees as possible conflict-of-interest situations.

On January 22, 1982, we notified the Operations Office of our observations on the conversion of security guard services and advised that, in view of the substantial savings that could result, consideration should be given to reinstating the in-house operation. A copy of our letter (see app. III) was provided to your Office on January 26, 1982. The Operations Office told us in its January 29, 1982, response, that it does not intend to terminate the contract. (See app. IV.)

RECOMMENDATION

In view of the substantial savings that could result from performing guard services in-house, we are recommending that the Secretary of Energy reassess the decision to contract for guard services at the Oak Ridge Operations Office to determine whether termination of the contract might be in the best interest of the Government.

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We are sending a copy of this report to Senator Jim Sasser, who endorsed your request. However, unless you publicly announce its contents earlier, we plan no further distribution until 5 days from the date of this report. At that time, we will send copies to the Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, and House and Senate Committees on Appropriations; the Secretary of Energy; and the

Director, Office of Management and Budget. We will also make copies available to others upon request.

Sincerely yours,

for Donald J. Horan
Director

CONTRACTING OF VARIOUS ACTIVITIES AT THE OAK RIDGE OPERATIONS OFFICE AND THE TECHNICAL INFORMATION CENTER OAK RIDGE, TENNESSEE

The Oak Ridge Operations Office's (ORO's) conversion of security guard services from in-house to contractor will increase Government costs from $648,000 to $1,175,000 rather than save $291,000, over the 3-year period. This will occur because certain costs that will be incurred by contracting were not included in the cost comparison on which the decision was based. Also, ORO did not make a required cost comparison before converting accounting activities for nuclear materials to contract. ORO and the Technical Information Center (TIC) were in compliance with Office of Management and Budget (OMB) Circular A-76 in other contracting actions. No apparent conflicts of interest were found in the contracting decisions cited.

The activities examined at ORO and TIC (see app. II) represent only a small segment of the total activities performed by these organizations. ORO programs include enrichment of uranium for national defense and for fueling nuclear electric power reactors all over the world. ORO also plays a large role in the production of nuclear weapons components and continues a wide variety of research and development in support of many nuclear-related programs. ORO employs about 28,000 contractor employees and 550 Federal employees.

The primary function of TIC is to promote the effective use of technical information by Department of Energy (DOE) scientists, engineers, and program managers by centrally collecting, managing, and disseminating worldwide research and development energy results. TIC employs about 250 Federal employees and 120 contractor employees.

COSTS BY CONTRACTING OMITTED FROM COST COMPARISON FOR SECURITY GUARDS

In August 1981 ORO completed the cost comparison used to support the decision to award a contract on November 5, 1981, for security guard services. The comparison indicated that contract performance could save about $291,000 over a 3-year period.

Our analysis of the cost comparison, however, disclosed a number of discrepancies and instead of a savings, we estimate that costs to the Government by contracting will exceed the cost of in-house performance by at least $648,000 over the same 3-year period. If the contractor's turnover rate reaches the levels suspected by some ORO officials or if proposed salary rates prove to be inadequate to attract and retain qualified people, contract costs could exceed in-house costs by as much as $1,175,000.

ORO's cost comparison showed a savings because it

--did not include costs for continuing activities of the Oak Ridge Operations Center (OROC) after contract award,

--used inaccurate and unrealistic labor rates for contractor employees,

--did not include an increase in the contract price for a guard supervisor,

--understated the costs of security clearances and medical examinations for contractor employees, and

--overstated the 1981 pay increase for Federal employees.

We brought our observations to the attention of ORO officials and also notified the Controller, Department of Energy, and the Administrator, Office of Federal Procurement Policy, OMB. We advised these officials that, in view of the substantial savings that could result, consideration should be given to reinstating the in-house operation. In response to our observations, ORO told us it does not intend to terminate the contract. In view of the substantial savings that could result from performing guard services in-house, we recommend that the Secretary of Energy reassess the decision to contract for guard services at the Oak Ridge Operations Office to determine whether termination of the contract might be in the best interest of the Government.

Costs of continuing operation not included in cost comparison

Contracting will require more OROC and contractor personnel to perform the work than would be required if the work was performed in-house. The costs for the additional personnel were not included in the cost comparison. The request for proposal required that contractor proposals be based on providing 17 guards and 10 supervisors to replace 17 guards and to perform supervisory functions that were being performed by 10 OROC personnel as only a part of their duties. In effect, the 10 full-time contractor supervisors would be doing the work done in-house by 10 OROC personnel on a part-time basis. The 10 OROC personnel would continue to perform their duties, other than guard supervision, after the services were contracted.

Consequently, since the 10 OROC personnel were to remain after contracting, they should have been added to the costs to contract for the purpose of comparison. However, ORO did not include the costs for these positions. If these costs had been included in the cost comparison, it would have shown an estimated $734,000 increase in costs over the 3-year period by contracting.

ORO's response and our evaluation

ORO told us that the cost of operating OROC was excluded from both in-house and contracting in the cost comparison. This is not so. ORO's estimate of in-house performance included as supervision costs the personnel and related costs for operating OROC. ORO also stated that costs for operating OROC were not treated as contracting costs because of provisions in OMB Circular A-76, which require that Government and contractor costs be based on the same scope of work and level of performance. We believe that this is an incorrect interpretation of the circular.

Paragraph 9.a.(3) of A-76 provides as follows:

> "Cost comparisons are to be aimed at full cost, to the maximum extent practical in all cases. All significant Government costs * * * must be considered, both for direct Government performance and for administration of a contract."

This issue is also covered by paragraph G, chapter IV, of the Cost Comparison Handbook, which provides as follows for "Other Costs:"

> "This cost category encompasses any additional Government costs which would result from contracting and which are not covered elsewhere in the cost comparison * * *."

We believe that it is also significant to note, however, that paragraph C.l., chapter II, of the Cost Comparison Handbook provides as follows for preparing work statements for in-house estimates and contractor bids.

> "* * * The work statement should clearly state what is to be done without prescribing how it is to be done. * * * Maximum flexibility should be permitted in staffing to permit each potential performer to propose the most efficient approach consistent with its organization and resources * * *."

On this basis, a more appropriate and accurate cost comparison would have reflected (1) in-house costs based on the percentage of time that OROC personnel devoted to the guard supervision function and (2) contractor costs based on an "adequate supervision" requirement, instead of a specified number of supervisors.

A DOE budget action may also have influenced the contracting at ORO. The fiscal year 1980 authorization for personnel was reduced by 18 security guard positions before the cost comparison study was even initiated. According to the manager of ORO, this action was apparently taken with the expectation that the cost comparison would justify contracting. Consequently, ORO was unable to fill vacant guard positions and all guards were placed on 12-hour shifts in May 1981. ORO did not attribute the decision to contract for guard services to the personnel reductions, but it appears that the cost comparison and the resulting decision to contract out was influenced by the reduction of 18 security guard positions.

Inaccurate and unrealistic labor rate used for contractor guards

The labor rate used in ORO's cost comparison was not current. As a result, the cost of contracting is understated by about \$75,000 over the 3-year period of the comparison. Further, if the contractor is forced to pay the prevailing rate for the area in order to attract and retain qualified people, contract costs could increase by as much as \$591,000 over the same period.

The contractor's proposal and ORO's cost comparison were based on a labor rate for guards of \$4.73 an hour--the rate provided by the Department of Labor (DOL) on June 17, 1980, under provisions of the Service Contract Act. In May 1981, however, 3 months before the cost comparison was finalized and 6 months before the contract was awarded, DOL provided ORO an updated rate of \$5.15 an hour for security guards on another contracting action. Use of the more current rate would increase the cost of contracting by about \$75,000 over 3 years.

Labor costs, however, may be even higher. A committee of three people appointed by ORO to evaluate the contractor's proposal, as well as the Director of the Safeguards and Security Division, expressed serious reservations about the proposed labor rate and the contractor's associated ability to recruit and retain the required class of guards because it was much lower than prevailing rates in the area. In fact, the records indicate that after reviewing the contractor's proposal, the manager of ORO believed that the \$4.73 rate was not realistic and the contractor would have to pay a higher rate.

We share these concerns. The average starting rate for security guards employed by other ORO contractors in the Oak Ridge area is more than \$8.00 an hour. If this rate was used in the comparison, contracting costs would increase by about \$591,000 over 3 years.

ORO's response and our evaluation

ORO's position on our finding is that there was neither a need for nor any regulation dictating that the wage determination be updated after the request for bids went out in November 1980. However, given the unusual time frame involved (1 year from the time the request for bids went out until a contract was awarded), we believe an updated wage determination was in order.

Also, some ORO officials were aware that a new wage survey had been conducted and the wage rates for security guards revised upward to $5.15 an hour. ORO contacted DOL in June 1981, 2 months before the cost comparison was completed, to determine how the $4.73 rate was calculated. ORO was informed that a new wage survey had been conducted in October 1980 and the revised wage rate for security guards was $5.15 an hour. Therefore, given the concern over the disparity between the contractor's proposed wage rates and prevailing rates in the area, and the fact that ORO was apparently aware that the $4.73 rate was outdated, we believe the revised rate should have been included in the cost comparison.

ORO maintains that the $4.73 per hour rate was proper and that there is no basis for using any other rate for this cost comparison. Also, the Chief, Acquisitions Branch, Procurement and Contracts Division, told us that the Government has no authority to adjust a contractor's proposed wage rates as determined by the DOL wage survey and that such adjustments could, and most likely would be, protested. We do not believe this is correct. Paragraph B.2.e, chapter IV, of the Cost Comparison Handbook provides as follows:

> "If a cost reimbursement-type contract is required by special circumstances, the apparent low bidder or offeror's estimated costs must be subjected to a meticulous technical and cost evaluation to assure that the estimated costs are neither over nor understated. Adjustments to the bidder's or offeror's estimate need to be reviewed with the bidder or offeror before the adjusted contract price is entered."

Supervisor costs not included

ORO's cost comparison does not include costs for a guard supervisor who was added to the contractor's personnel level and included in the contract after the comparison was finalized. The additional supervisor will increase contracting costs by about $58,000 over the 3-year period of the comparison.

ORO's response and our evaluation

ORO pointed out that the impact of the additional supervisor was calculated, but the cost comparison was not adjusted because these additional costs would not have changed the results of the comparison.

We agree that ORO did calculate the cost of the additional supervisor. We also agree that, standing alone, these costs would not have changed the results of the comparison. When added to the other inappropriately excluded costs, however, these costs do increase the margin between in-house and contract costs and further invalidate ORO's comparison.

Security clearance and medical examination costs understated

ORO's cost comparison does not include costs for approved increases in the number of contractor security clearances and medical examinations. As a result, we estimate that the cost of contracting is understated by about $61,000 over the 3-year period of the comparison. The understatement may be as much as $152,000, however, if the contractor's turnover rate reaches 50 percent, as suspected by some ORO officials.

The cost comparison includes costs for 55 active security clearances and medical examinations and an employee turnover rate of 25 percent. After the comparison was finalized, the number of allowable active clearances and medical examinations was increased to 75 to more adequately provide for emergencies, such as strikes, and for the estimated 25 percent turnover rate. This computes to 94 clearances for the first year of the contract. These additional clearances and medical examinations will increase contracting costs by about $61,000 over 3 years.

The records also show that some ORO officials, including the Chief, Protective Security Branch, and the committee which evaluated the contractor's proposal, felt that the employee turnover rate will exceed 25 percent and might go as high as 50 percent because of the contractor's low pay rates. The contractor also indicated that a higher turnover rate was anticipated because of the length of time required for obtaining security clearances. If that rate is experienced, the cost of contracting will increase by about $152,000 over the 3-year period of the comparison.

ORO's response and our evaluation

ORO pointed out that the cost of the additional clearances (but not medical exams) was calculated, but the cost comparison was not adjusted because these additional costs would not affect the results of the comparison. Again, we agree that standing alone these costs would not have changed the results of the comparison. When added to the other inappropriately excluded costs, however, these costs do increase the margin between in-house and contractor performance.

ORO also points out that there is no certainty these additional clearances and medical examinations would be required during the initial start-up of the contract operation. In addition, ORO points out that seven of the applicants for the contractor positions have security clearances which can be extended or reinstated. If these applicants are still available and accepted for employment when the contractor takes over in May 1982, first-year costs would be reduced by only $9,660, which is insufficient to offset our estimate of the potential understatement in contracting costs.

We believe it should also be pointed out that the number of authorized security clearances is not part of the contract document. If the contractor requires more than the agreed upon number of clearances in order to maintain security services, ORO will have no choice but to provide them. This, of course, will mean not only increased costs for security clearances, but also training, uniforms, etc.

Pay increase for Federal employees overstated

ORO's estimate of in-house costs was based on a pay increase for Government employees of 5.5 percent for October 1981, instead of the actual increase of 4.8 percent. As a result, the cost of in-house performance was overstated by about $6,000 over the 3-year period of the comparison.

ORO's response and our evaluation

ORO maintains that the comparative cost analysis was originally prepared in February 1981 before the amount of the October 1981 pay raise was known. ORO's estimate of 5.5 percent was apparently based on the President's budget submission to the Congress on January 15, 1981. But, on March 10, 1981, more than 5 months before the cost comparison was finalized, the 4.8 percent pay raise was made public when the new administration submitted its budget revisions to the Congress. Therefore, we believe it was appropriate to make this adjustment before the cost comparison was completed.

Recommendation

In view of the substantial savings that could result from performing guard services in-house, the Secretary of Energy should reassess the decision to contract for guard services at ORO to determine whether termination of the contract might be in the best interest of the Government.

REQUIRED COST COMPARISON NOT MADE FOR NUCLEAR MATERIALS ACCOUNTING ACTIVITIES

During the period 1977 to 1979, ORO converted in-house nuclear materials accounting activities to contract performance. ORO did not determine the relative cost of Government and contract performance before transferring these functions as required by OMB Circular A-76.

In 1977, due to personnel ceilings and associated funding restraints, ORO began converting work associated with accounting for domestic and international movements of nuclear materials from in-house to contract performance. The contractor estimated that fiscal year 1979 costs would be about $350,000 for the functions transferred in 1978. ORO had previously requested additional positions to continue the work in-house, but without success.

ORO officials believe the contract operation was more desirable than the previous in-house operation because

--the workload was increasing and there were no prospects of receiving additional staff,

--the work transferred was similar to work already being done by the contractor for other nuclear material management activities, and

--the contractor had a more experienced data entry staff that could be enlarged.

The contractor has been performing these activities for more than 3 years. Circular A-76 does not require a cost comparison for activities already contracted unless the agency determines that it is likely that the work can be performed in-house at a cost that is less than contract performance by 10 percent of Government personnel costs plus 25 percent of the cost of ownership of equipment and facilities. ORO officials told us that they believe the contract operation is less costly and considerably more efficient than if the work was done in-house. Therefore, a cost comparison was not made. Since in-house and contractor cost data was not developed, we could not evaluate which method of operation would be less costly.

COST COMPARISONS NOT REQUIRED FOR ACTIVITIES COSTING LESS THAN $100,000 ANNUALLY

Many of the contracting actions we were asked to review involved activities with less than $100,000 in annual operating costs. For such activities, Circular A-76 provides that agencies should not ordinarily incur the delay and expense of conducting cost comparison studies. Activities below this threshold are to be performed by contract if a satisfactory commercial source is available and national security considerations do not necessitate in-house performance. Those activities identified in the enclosures to your letter, which are in this category, follow.

Activity	Estimated annual operating cost
Certain functions of ORO's Procurement and Contracts Division	$85,700
ADP Service Center-ORO Finance Division	46,100
Contracts awarded to ex-employees by ORO's Office of Chief Counsel and Engineering Division	18,500 (total for 3 contracts)
Nine contracts involving specialized abstracting	76,500 (total for 9 contracts)
TIC's Issues and Policies Program	9,600
ORO Communications Center	92,000
Work performed by GS-6 editorial assistant-TIC Descriptive Cataloging Section	3,600
ORO centralized mail and document control	84,000
ORO photographic services (will remain in-house)	59,000

COST COMPARISON NOT REQUIRED
FOR ORO'S WORD PROCESSING CENTER

The word processing center, which was contracted, was a newly established activity and did not involve a transfer of work from Government employees to a contractor. A-76 requirements differ for conversions and "new starts." In the case of new starts, a cost comparison is not required if management determines that in-house performance is not feasible.

When ORO management made the decision to establish the center, one of the alternatives explored was an in-house operation. The study group that evaluated the alternatives concluded that the in-house operation was not feasible because (1) the typical mix of secretarial and typing duties by position would make it very difficult for most offices to consider giving up a space for typing without reorganizing their workload and (2) the difficulty of justifying grades under the Civil Service guidelines sufficient for recruiting and retaining a good staff.

RESEARCH IN PROGRESS
DATA BASE

The concerned employees indicated that in-house work associated with maintaining the Research in Progress (RIP) data base was added to an existing contract. According to TIC management, data entry requirements for the RIP system were previously being done by another contractor. In 1979 congressional and other agency support for this effort was withdrawn. TIC considered the availability of this information a top priority objective and decided to continue to collect this information with existing in-house resources until the contractual effort could be renewed. With the establishment of a contract with a small business contractor to respond to public energy information requests, an opportunity became available to incorporate the RIP system work. Delays in execution of the contract necessitated that the data entry work be handled on an interim basis by TIC employees.

OMB Circular A-76 provides that new requirements, which would be suitable for award under a small business set-aside program, should be satisfied by such a contract without a comparative cost analysis. The contractor is certified by the Small Business Administration to participate in its 8(a) program, which provides Government contracts to socially and economically disadvantaged firms in order to encourage business development.

FEDERAL ENERGY INDEX

The concerned employees who prompted your request suggested that a segment of the work transferred to Maxima Corporation involved the Federal Energy Index. However, development of the Index was a DOE Energy Information Administration (EIA) pilot project. According to TIC management, they provided technical and professional assistance on the project, but made no permanent commitment to provide in-house resources for this external requirement. Subsequently, EIA determined that the project was worthwhile and contracted out the work, but not to the Maxima Corporation. According to TIC officials, they were not involved in the EIA decision.

TIC PRINTING ACTIVITIES

The employees who prompted your request were also concerned that 75 to 80 percent of TIC's printing work is performed by contractors. They indicated that contracted work is returned in such poor quality that it is reprinted by TIC employees.

Government Printing and Binding Regulations, issued by the Joint Committee on Printing, require that all printing must be contracted for with the private sector whenever it is feasible and appropriate to do so. Also, Circular A-76 does not apply to printing and binding activities except in those agencies that have been exempted by law from the provisions of title 44 of the U.S. Code. Chapter 5, section 501 of this title provides:

> "* * * All printing, binding, and blank-book work for Congress, the Executive Office, the Judiciary, other than the Supreme Court of the United States, and every executive department, independent office and establishment of the Government, shall be done at the Government Printing Office, except
>
> "(1) classes of work the Joint Committee on Printing considers to be urgent or necessary to have done elsewhere; and
>
> "(2) printing in field printing plants operated by an executive department, independent office or establishment, and the procurement of printing by an executive department, independent office or establishment from allotments for contract field printing, if approved by the Joint Committee on Printing. * * *"

Under the direction of the Joint Committee on Printing, the Government Printing Office established regional printing procurement offices throughout the United States. TIC printing requirements are handled through the regional office which contracts with private printing firms. According to TIC management, the only printing requirements done in-house involve classified material, complex or nonroutine printing, or printing with deadlines which cannot be met by a private sector printer.

TIC management denied that poor quality contract work is corrected by TIC employees and provided us correspondence showing the return of unacceptable work to printing firms. They point out that payment cannot be legally authorized until the work is accepted by TIC.

SCIENCE AND TECHNOLOGY DIVISION CONTRACTS

The concerned employees indicated that during 1979 work was contracted that could be done at less cost by TIC employees.

These contracting actions by TIC's Science and Technology Division did not involve a transfer of work from Government employees to a contractor. Instead, these actions involved the procurement of material for inclusion in the TIC Energy Data Base from firms which TIC has had contractual arrangements with for 10 to 15 years.

Under A-76, for existing contracts, if management believes that in-house performance is not likely to be justified on the basis of cost, a comparative cost study is not required. TIC management points out that entrance by TIC in this field would result in competition with the private sector at a substantially higher cost. Their analysis indicates that based on average per item costs, an in-house operation would be 5 to 6 times more costly than under the contract arrangement.

The TIC analysis, submitted to OMB in conjunction with the fiscal year 1983 budget review, indicates an approximate cost of $61 per item to process non-DOE unclassified energy items (i.e., books, journals, etc.). The two contractors charge about $11.00 and $16.00 an item.

TIC management emphasizes that the cost differential is partly attributable to the fact that these firms sell their product to organizations other than TIC. But more importantly, the cost of items procured through the contractors do not include processing while the in-house costs do. According to TIC, the contractors are nonprofit organizations who process these items for their own use and, therefore, do not include this charge in their price.

NO APPARENT CONFLICTS OF INTEREST

The employees cited two instances where decisions to contract represent potential conflict-of-interest situations. In one instance, it was stated that the contractor has access to records of both national and international nuclear material transactions and inventory information and that this information may provide an unfair advantage in the marketplace. We were told by ORO that this is public information and, therefore, available to anyone requesting the data. The second area of concern to the employees was that a contractor was performing a procurement function and because other divisions of the contractor might bid on proposals or solicitations, the employees felt that this was a potential conflict of interest situation. ORO has taken measures to prevent a conflict of interest by (1) providing a list of items which can be obtained sole-source from divisions of the contractor because they are the only known source and (2) requiring the approval of ORO before procuring any other items from divisions of that contractor.

OTHER AREAS OF CONCERN

ORO and TIC officials denied, and we found no indication that DOE managers and technical personnel are securing review, edit, compilation, typing, and other services from current contractors on an informal basis. Also, we found that TIC has no plans to contract out the abstracting of solar energy research and development reports as indicated in the enclosures to your letter.

FUNCTIONS INCLUDED IN GAO'S REVIEW

OAK RIDGE OPERATIONS OFFICE

1. Nuclear materials accounting activities
2. Procurement of small items (costing less than $10,000 or catalogued items)
3. Automatic data processing services
4. Word processing center
5. Communications center
6. Security patrol
7. Central mailroom
8. Photographic services

TECHNICAL INFORMATION CENTER

1. Proofreading/editing/data input
2. Specialized abstracting/editing
3. Printing
4. Issues and policies summaries
5. Abstracting solar energy research and development reports

UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
121 COURTLAND STREET, N.W.
ATLANTA, GEORGIA 30043

January 22, 1982

Mr. Robert J. Hart, Manager
Oak Ridge Operations Office
Department of Energy
P. O. Box E
Oak Ridge, Tennessee 37830

Dear Mr. Hart:

At the request of Representative Marilyn Bouquard and Senator James Sasser, we have reviewed the cost comparison used by the Oak Ridge Operations Office (ORO) to support the decision to award a CPFF contract to Brock International Security Corporation for guard services.

Our observations concerning the cost comparison were discussed with Mr. W. J. Hamstead, Assistant Manager for Administration. Instead of the savings of $291,000 shown by the cost comparison, we estimate that contracting-out costs will exceed the cost of in-house performance by $648,000 to $1,175,000 over a 3-year period. Therefore, you may wish to reconsider the contract award and the benefits of reinstating the in-house operation.

The cost comparison erroneously shows a savings because it

--incorrectly excludes costs for continuing guard-related activities of the Oak Ridge Operations Center (OROC) after contract award,

--uses inaccurate and unrealistic labor rates for contractor employees,

--does not include an increase in the contract price for a guard supervisor,

--understates the costs of security clearances and medical examinations for contractor employees, and

--overstates the 1981 pay increase for Federal employees.

OROC COSTS EXCLUDED

ORO's cost comparison does not include costs for certain continuing guard related activities of the OROC as an added cost of contracting out the guard service. We estimate that, as a result, the cost of contracting out is understated by about $734,000 over the 3-year period of the comparison. ORO's internal audit group also questioned the exclusion of these costs from the cost comparison and consequently withheld audit certification of the in-house estimate.

Under the in-house arrangement, personnel operating the OROC also provided required supervision for the guard service. Under the contracting-out arrangement, in-house operation of the OROC will continue without personnel reductions but guard supervision will be provided by the contractor.

Accordingly, ORO's estimate of in-house performance included personnel and related costs for operating the OROC as supervision cost. Since those costs are continuing, they should also have been added to contracting-out costs for purposes of comparison.

The records show that costs for operating the OROC were not treated as contracting-out costs because of provisions in A-76 which require that Government and contractor costs be based on the same scope of work and level of performance. We believe that this is an incorrect interpretation of the impact of including OROC costs in the comparison as an added cost of contracting out because inclusion would raise no valid questions about the comparability of the scopes of work and levels of performance. Instead, the costs relate only to the Government's approach to performing the guard services and, as such, are appropriately includable in the comparison under paragraph 9.a. (3) of A-76 which provides as follows:

> "Cost comparisons are to be aimed at full cost, to the maximum extent practical in all cases. All significant Government costs * * * must be considered, both for direct Government performance and for administration of a contract."

This issue is also covered by paragraph G, chapter IV of the Cost Comparison Handbook which provides as follows for "Other Costs:"

> "This cost category encompasses any additional Government costs which would result from contracting and which are not covered elsewhere in the cost comparison * * *."

We believe that it is also significant to note, however, that paragraph C.1., chapter II of the Cost Comparison Handbook provides as follows for preparing work statements for in-house estimates and contractor bids.

> "* * * The work statement should clearly state what is to be done without prescribing how it is to be done. * * * Maximum flexibility should be permitted in staffing to permit each potential performer to propose the most efficient approach consistent with its organization and resources * * *."

On this basis, a more appropriate and accurate cost comparison would have reflected (1) in-house costs based on the percentage of time that OROC personnel devoted to the guard supervision function, and (2) contractor costs based on an "adequate supervision" requirement instead of a specified number of supervisors. We discussed this informally with an official of the Office of Management and Budget and he concurred.

INACCURATE AND UNREALISTIC LABOR RATE

The labor rate used in the contractor's proposal and as included in ORO's cost comparison was not current. In addition, the rate appears to be unrealistically low and not applicable to the class of guards required by ORO. We believe that, as a result, the cost of contracting out is understated by $75,000 to as much as $591,000 for the 3-year period of the cost comparison.

The contractor's proposal and ORO's cost comparison were based on a labor rate for guards of $4.73 an hour; the rate provided by the Department of Labor (DOL) on June 17, 1980, under provisions of the Service Contract Act. In May 1981, however, before ORO's cost comparison was finalized and the contract awarded, DOL provided an updated rate of $5.15 an hour in connection with another of ORO's contracting actions. Use of the higher and more current rate would increase contracting-out costs by about $75,000 over 3 years.

Labor costs, however, may be even higher. A committee of three people appointed by ORO to evaluate the contractor's proposal, as well as the Director of the Safeguards and Security Division, expressed serious reservations about the proposed labor rate and the contractor's associated ability to recruit and retain the required class of guards because it was much lower than prevailing rates in the area. The committee reported, for example, that a local ORO contractor was paying from $8.00 to $8.06 and hour and that Oak Ridge police received a starting rate of $5.88 an hour.

We share these concerns. The average starting rate for guards with other ORO contractors is $8.03 an hour. If this rate is used, contracting-out costs increase by about $591,000 over 3 years.

Furthermore, we noted that the labor rates of $4.73 and $5.15 an hour provided by DOL are composite rates developed by combining survey data on Class B guards with that of Class A guards--the class required by ORO. For example, the $5.15 rate is based on 221 Class B guards, most of whom were paid less than $3.60 an hour, and 157 Class A guards, most of whom were paid over $7.20 an hour. The erroneous rate determination from DOL appears to have resulted from ORO's failure to specifically request a rate determination for Class A guards. Instead, ORO requested a determination for lead guard, guard, and guard supervisors to "Provide guard services for the Federal Building and various other DOE facilities (Requires being armed)." Both A and B guards can carry arms.

The Chief, Acquisitions Branch, Procurement and Contracts Division, told us that the Government has no authority to adjust a contractor's proposed wage rates as determined by the DOL wage survey and that such adjustments could and most likely would be protested. We do not believe this is correct. Paragraph B.2.e, chapter IV, of the Cost Comparison Handbook provides as follows:

> "If a cost reimbursement-type contract is required by special circumstances, the apparent low bidder or offeror's estimated costs must be subjected to a meticulous technical and cost evaluation to assure that the estimated costs are neither over nor understated. Adjustments to the bidder's or offeror's estimate need to be reviewed with the bidder or offeror before the adjusted contract price is entered."

SUPERVISOR COSTS NOT INCLUDED

ORO's cost comparison does not include costs for a guard supervisor who was added to the contractor's personnel level and included in the contract after the comparison was finalized. The additional supervisor will increase contracting-out cost by about $58,000 over the 3-year period of the comparison.

SECURITY CLEARANCE AND MEDICAL EXAMINATION COSTS UNDERSTATED

ORO's cost comparison does not include costs for approved increases in the number of contractor security clearances and medical examinations. As a result, we estimate that the cost of contracting out is understated by about $61,000 over the 3-year period of the comparison. The understatement may be as much as $152,000, however, if the contractor's turnover rate reaches 50 percent as suspected by some ORO officials.

The cost comparison includes costs for 55 active security clearances and medical examinations and an employee turnover rate of 25 percent. After the comparison was finalized, however, the number of allowable active clearances and medical examinations was increased to 75 to more adequately provide for emergencies such as strikes and for the estimated 25 percent turnover rate. The additional clearances and medical examinations will increase contracting-out costs by about $61,000 over 3 years.

The records show, however, that some ORO officials, including the Chief Protective Security Branch and the committee which evaluated the contractor's proposal felt that the employee turnover rate will exceed 25 percent and might go as high as 50 percent because of the contractor's low pay rate. The contractor also indicated that a higher turnover rate was anticipated because of the length of time required for obtaining security clearances. If that rate is experienced, the cost of contracting out will increase by about $152,000 over the 3-year period of the comparison.

PAY INCREASE FOR GOVERNMENT EMPLOYEES OVERSTATED

ORO's estimate of in-house costs was based on a pay increase of 5.5 percent for October 1981 instead of the actual increase of 4.8 percent. As a result, the cost of in-house performance was overstated by about $5,900 over the 3-year period of the comparison.

- - - -

We are bringing this to your attention at this time in view of the substantial savings that could result from an early decision to reinstate the inhouse operation. Please advise us of your views on this matter and of any actions taken. We are also sending copies of this letter to the Controller, Department of Energy (DOE), and to the Administrator for Federal Procurement Policy, Office of Management and Budget (OMB).

Sincerely,

Marvin Colbs

Marvin Colbs
Regional Manager

Department of Energy
Oak Ridge Operations
P.O. Box E
Oak Ridge, Tennessee 37830

January 29, 1982

Mr. Marvin Colbs, Regional Manager
Regional Office
U. S. General Accounting Office
221 Courtland Street, NE
Atlanta, GA 30043

Dear Mr. Colbs:

REVIEW OF A-76 COST COMPARISON - GUARD SERVICES

Reference is made to your January 22, 1982 letter covering your review of our cost comparison accomplished under the provisions of OMB Circular A-76 to support the decision to award a CPFF contract to Brock International Security Corporation for guard services. Before addressing the specific comments contained in your letter, we would like to provide some background information on the circumstances and the time frame in which this study was performed.

In late July 1980, we started work on the OMB Circular A-76 review of the guard function at Oak Ridge Operations. We began by reviewing the guard function to develop a statement of work as the basis for an in-house estimate and for requesting proposals from commercial sources. A Request for Proposals (RFP) for guard services was completed and released to prospective offerors on November 26, 1980. The RFP established a due date of February 16, 1981, for proposals and provided for a projected contract award date of May 29, 1981. The due date for proposals was extended to February 27, 1981, by an amendment to the RFP dated January 3, 1981. During this period of time the estimate of the cost to the Government of performing the guard function in-house was being prepared. The in-house estimate was completed and forwarded to the Director, Procurement and Contracts Division on February 25, 1981, prior to the closing date for receipt of proposals. Proposals were received from seven firms in response to the RFP. These seven proposals were reviewed and evaluated by both the Cost Committee and the Technical Evaluation Committee and the proposal received from Brock International Security Corporation was determined to be the only responsive proposal in the competitive range. The contract cost as determined by the Cost Committee was added to the A-76 Cost Comparison Schedule and the cost comparison - with supporting documentation - was submitted to DOE Headquarters for review and final approval on April 24, 1981. During the course of the thorough review and evaluation performed by DOE Headquarters, there was considerable dialogue between Oak Ridge Operations and Headquarters personnel concerning the A-76 review and a considerable amount of additional documentation was furnished to Headquarters. By copy of a memorandum dated August 12, 1981, from the Controller to the Assistant Secretary for Defense Programs, we were advised that the Assistant Secretary, Management and Administration, had approved contracting for the Oak Ridge Operations Office guard services. The decision to contract for guard services was appealed by three affected employees in accordance with DOE procedures. The review official, then Acting Under Secretary, upheld the decision to contract for guard services. The contract with Brock for guard services was executed on November 5, 1981, and Brock initiated recruiting activities in late November in anticipation of implementing guard services for Oak Ridge Operations about May 1, 1982.

As disclosed by the above information, the elapsed time from the initiation of the A-76 review until the contractor will be operational approaches two years, and it will be over a year from the time the contract proposal was received until the contractor will be operational. During this period of time the Oak Ridge guard force has been significantly understaffed and we have been unable to hire additional guards because of personnel ceiling limitations. All guard personnel were placed on a twelve-hour shift on May 3, 1981, which they have been working ever since.

A discussion of the comments contained in your January 22, 1982, letter follows:

OROC Costs Excluded

We do not concur that the Oak Ridge Operations Center (OROC) costs should be included in the comparative cost analysis of contracting out versus in-house performance of ORO guard services. In accordance with the provisions of the Cost Comparison Handbook, a thorough review was made of the guard function prior to undertaking the A-76 review to assure that the function is organized and staffed for the most efficient performance. During the course of this review, the Oak Ridge Operations Office Manager determined that the OROC is a Government function so intimately related to the public interest, national health, and national defense as to mandate performance by Federal employees. Because of the determination that the OROC would continue to be a Government operation, the OROC was excluded from the statement of work that was incorporated in the RFP. OMB Circular A-76 and the Cost Comparison Handbook emphasize that both Government and commercial cost figures must be based on the same scope of work. Accordingly, the cost of operating the OROC was excluded from both the cost of performing guard services in-house and the cost of contracting out the guard services.

In short, it is not possible to incorporate the cost of operating the OROC in the other costs of contracting out and still maintain that the cost comparison is made on the basis of the statement of work, as required by the Cost Comparison Handbook.

The first sentence of the third paragraph of your comments under the heading "OROC Costs Excluded" is not correct. The ORO estimate of in-house performance did not include personnel and related supervision costs as stated here. As previously stated, the cost of operating the OROC was excluded from both in-house performance and contracting out.

Reference is made to your suggestion that it would be more appropriate to use a percentage of OROC personnel as the cost of the supervisor function for in-house performance, rather than the manner in which we costed supervisors in the cost comparison. In our opinion, this would mean that you would assume integration of the OROC and the guard services function for the purpose of calculating in-house costs, but would use the statement of work described in the RFP that excluded the OROC for determining the cost of contracting out. In our opinion, this also is definitely contrary to the A-76 requirement that both Government and commercial cost figures be based on the same scope of work.

Although ORO did not have any discussion with OMB officials during the preparation of the A-76 cost comparison, the cost comparison was submitted to DOE Headquarters on completion for review and approval by the Assistant Secretary, Management and Administration. The decision to contract for guard services was appealed by three affected employees. These appeals were reviewed by the DOE Acting Under Secretary who subsequently upheld the decision to contract for guard services.

Inaccurate and Unrealistic Labor Rates

We do not agree with your comment that the labor rate used in the contractor's proposal and ORO's cost comparison was not current. The labor rate used in the contractor's proposal and the ORO cost comparison was based on the wage determination obtained from the Department of Labor on June 17, 1980, in accordance with regulations which implement the Service Contract Act. The Department of Labor determination represented the latest data available to DOL based on its area survey and was incorporated into the Request for Proposal. There was neither a need for nor any regulation dictating that the wage determination be subsequently updated. The proposed wage rate was discussed extensively with the contractor during negotiations. As a result, DOE concluded that the bases for Brock asserting that it would be able to attract and retain qualified guard personnel at the rates proposed were realistic and reasonable. Therefore, we do not agree that there was any significant understatement of the cost of contracting out. We did not request nor did the Department of Labor provide an updated wage determination rate of $5.15 per hour in May 1981, in connection with this contract action.

The wage rate at which the contractor might attract and retain qualified guard personnel is, to some extent, a matter of judgment. There were some within ORO who felt that the $4.73 per hour rate was not high enough for the contractor to hire and retain a sufficient number of qualified guards. This matter was discussed extensively with Brock and we believe that the contractor's experience during its initial recruiting efforts to implement contract operations is a positive indication that it will be able to obtain qualified guard personnel at wage rates on which its proposal was based.

To our knowledge there is no standardized or DOL required terminology for requesting a service contract wage determination. We described the type of service that would be required of these guards and the Department of Labor provided a wage rate without hesitation. If there had been any question on the part of the Department of Labor as to the nature of the services to be performed, we assume that DOL would have requested further information. In our opinion, the service contract wage rate of $4.73 per hour was proper, and there is no basis for using any other wage rate for this contract action.

The statement on Page 4, Paragraph 3, of your letter ascribed to the Chief, Acquisitions Branch, is inaccurate and completely removed from the context in which it was made. A discussion was held between Mr. Smith of GAO and Mr. Davis of DOE-ORO in Mr. Hamstead's office on November 6, 1981, in which Mr. Davis did state that he had no basis upon which to adjust the proposed salary rates as proposed by the contractor. We contend that the Contracting Officer had no reason to insist that the contractor increase its proposed wage rates in this instance. The rates proposed by the contractor were discussed in detail during our cost negotiations in accordance with Paragraph B.2.e., Chapter IV, of the Cost Comparison Handbook, as the record clearly shows. Under these circumstances, the Contracting Officer had no basis for adjusting the contractor's proposed rates unless he had some overriding reason for doing so and in this instance there was none. Subsequent events have supported the Contracting Officer's judgment, since during the contractor's initial recruiting over 800 applications were received for 33 full and part-time guard positions.

In summary, the current status of recruiting activities is as follows:

24	PSQ's in process
7	Clearances extended and/or reinstated
31	Employees, subject to clearance
1	Additional extension (possible)
1	Requires additional medical examination
33	

Although it was ORO's best judgment at the time that the comparative cost analysis was prepared that the wage rates proposed by Brock International were reasonable and adequate, an increase of 5 percent in the contractor's wage rate was later authorized. This increase in wage rates was requested by the contractor because of the extended period of time required to implement the contract. This minor increase in the wage rates would have had no impact on the decision made as a result of the A-76 study. The dollar impact of this wage increase together with other changes is discussed later in these comments.

Supervisor Cost Not Included

The additional guard supervisor was authorized after the determination to contract out was finalized and the cost of this supervisor was not included in the cost comparison. However, before authorizing the contractor to utilize another supervisor, we calculated the impact of the additional supervisor together with the additional security clearances and found that these additional costs would not have changed the result that contracting out costs less than in-house performance.

Security Clearances and Medical Examination Cost Understated

Because of the period of time that elapses from the time the security clearance is requested to the time it is granted (approximately 120 days), the contractor was concerned that during the initial start-up of contract operations clearances may be requested for prospective employees who might no longer be available for employment by the time the clearance is granted. The cost comparison included 69 security clearances and medical examinations for the first year of the contract. Because of the contractor's concern, the maximum number of clearances and medical examinations was increased to 75 for the first year of the contract, even though there was no certainty that these additional clearances and medical examinations would be required during the initial start-up of the contract operations. This is an addition of only six security clearances and medical examinations during the first year of contract operations and does not apply to the second or third year of the contract. Six security clearances at $1,380 each and six medical examinations at $150 each does not result in a $61,000 understatement of the cost of contracting out. It should be pointed out that during the initial recruiting effort, the contractor received a number of applications from people who had recently held active security clearances that could be reinstated. Accordingly, it is likely that the actual cost of security clearances for the initial new hires under the contract will be below the level projected in the A-76 cost comparison.

In our opinion, the 50 percent turnover rate cited in the Cost Committee Report was for a single isolated contract, and it is not reasonable to assume such an extreme rate for the cost comparison. Since there is no way to know what the actual turnover rate will be, an assumption must be made for the purpose of projecting the cost of security clearances and medical examinations. Questions could be raised relative to any turnover rate that one assumes for the calculation. In our opinion, a 25 percent turnover is a reasonable turnover rate on which to base a projection of future costs. At this point in time, we have no reason to assume that the 25 percent rate used for the cost study will be exceeded during future contract operations.

Pay Increase for Government Employees Overstated

The Comparative Cost Analysis Schedules were originally prepared in February 1981 before the Comparability Increase for Government Employees to be effective in October 1981 was known. At that point in time (February 1981), 5.5 percent was our best estimate of the Comparability Increase that would be implemented in October. After the October 1981 Comparability Increase was officially established at 4.8 percent, it was determined that the difference between the 5.5 percent projected Comparability Increase used for the cost comparison and the 4.8 percent Comparability Increase actually realized would not significantly change the results of the cost comparison, and recalculation of the Comparative Cost Analysis Schedules was not justified. However, we have since computed the impact of our decision not to recalculate in-house costs on the basis of the 4.8 percent Comparability Increase. The calculation showed that the use of 4.8 percent Comparability Increase would have only reduced the cost of in-house performance by one-quarter of one percent.

Conclusion

We computed the impact on the cost of contracting out of (a) the additional supervisor, (b) a negotiated 5 percent increase in wage rates, and (c) the additional security clearances and medical examinations. We found that the total cost of these items was about $47,000 for the first year and about $125,000 for the three-year period covered by the cost comparison. The impact of using the 5.5 percent estimated Comparability Increase was a further reduction in the projected savings of contracting out of approximately $2,000 for the first year and approximately $6,000 for the three-year period. Since the projected savings resulting from contracting out as shown by the A-76 Cost Comparison Schedule approved by DOE Headquarters was about $60,000 for the first year and about $291,000 for the three-year period, it would still be more economical to contract out even after considering these cost impacts. Consequently, we have not initiated any action to terminate the contract with Brock International Security Corporation as suggested in your letter.

Sincerely,

R. J. Hart
Manager

AD-43:DLR

cc: Donald E. Sowle, Administrator, Office of Federal Procurement Policy, Office of Management and Budget, Washington, DC 20503

P. Marshall Ryan, Controller, MA-80, Room 4A-139, Department of Energy, Forrestal Building, Washington, DC 20585

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